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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

SUSAN BITTER SMITH, Chairman
BOB STUMP
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2015 DEC -4 P 4: 35

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
EPCOR WATER ARIZONA, INC., AN ARIZONA
CORPORATION, FOR A DETERMINATION OF
THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES FOR UTILITY
SERVICE BY ITS MOHAVE WATER DISTRICT,
PARADISE VALLEY WATER DISTRICT, SUN
CITY WATER DISTRICT, TUBAC WATER
DISTRICT, AND MOHAVE WASTEWATER
DISTRICT.

DOCKET NO. WS-01303A-14-0010

DECISION NO. 75268

**NOTICE OF COMPLIANCE
FILING
ACTION PLAN – CONTROLS**

1 In compliance with Decision No. 75268, issued on September 8, 2015, EPCOR Water
2 Arizona Inc. ("Company") hereby files the attached Action Plan to address internal controls over
3 plant schedules and records as a compliance item in this docket. The Company has engaged an
4 external accounting firm to perform an independent review of the Company's plant records. The
5 scope of this engagement is outlined in Attachment A.

6
7 Respectfully submitted on December 4, 2015.

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10 Arizona Corporation Commission

11 **DOCKETED**

12 **DEC 07 2015**

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15 DOCKETED BY

16 *Sandra L. Murray*

17 Sandra L. Murrey
18 EPCOR Water Arizona Inc.
19 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

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5 Original and 13 copies **filed**
6 on December 4, 2015, with:

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8 Docket Control
9 Arizona Corporation Commission
10 1200 West Washington Street
11 Phoenix, Arizona 85007
12

13 Copies of the foregoing **emailed**
14 on December 4, 2015 to:

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16 Brian K. Bozzo
17 Compliance and Enforcement Manager
18 Utilities Division
19 1200 West Washington Street
20 Phoenix, AZ 85007
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1 addressing these issues prior to its next rate application and we intend to scrutinize the next
 2 application to determine if the problems described in this Decision have been addressed. The
 3 Company is on notice that it is at risk in future cases for non-recovery of costs related to unsupported
 4 accounting entries and plant values.

5 The Commission has concerns with respect to the accuracy of the Company's accounting and
 6 whether the Company's internal controls are in place and effective. Accurate accounting records set
 7 the foundation for the Commission to fulfill its fundamental oversight responsibilities. The
 8 Commission Staff, and RICO identified numerous errors throughout this rate case filing that required
 9 additional time and additional resources to analyze and resolve. Accordingly, we find it appropriate
 10 to adopt RUCO's recommendations and require the Company to file an action plan to correct the lack
 11 of internal controls over plant schedules and records, within 90 days of a decision in this docket. In
 12 addition, EPCOR shall engage an external accounting firm to perform an independent review of the
 13 Company's plant records to determine the accuracy and correctness of plant balances and to further
 14 determine if the internal controls are sufficient, in place and working. A report detailing the results of
 15 this external review shall be filed in this docket on or before May 27, 2016. Finally, the Company
 16 shall also be required to have an independent depreciation study performed and file it as part of its
 17 application in the Company's next rate case. The costs associated with preparing the action plan,
 18 retaining the external accounting firm and the independent depreciation study shall not be passed on
 19 to rate payers in a future rate case.

20 **J. Prohibit New Wells in AMA Service Areas**

21 In his Reply Brief, Mr. Magruder raises the question as to whether the Company should be
 22 ordered to apply to the Arizona Department of Water Resources to prohibit new exempt wells within
 23 EPCOR's service territory. (Magruder Reply Brief, at 15.)

24 There is no evidence in the record on this issue and, in any event, the argument raises a
 25 concern that is beyond the scope of the Commission's authority.

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ULLMANN & COMPANY P.C.

Certified Public Accountants

December 4, 2015

EPCOR Water Arizona Inc.
and Arizona Corporation Commission
Attn: Greg Barber
2355 W. Pinnacle Peak Rd. Ste. 300
Phoenix, AZ 85027

We are pleased to confirm our understanding of the nature and limitations of the services we are to provide for EPCOR Water Arizona Inc.

We will apply the agreed-upon procedures which EPCOR Water Arizona Inc. and the Arizona Corporation Commission have specified, listed in Attachment A, to the Plant Rollforward schedules created by EPCOR Water Arizona Inc. This engagement is solely to assist EPCOR Water Arizona Inc. and the Arizona Corporation Commission in determining the accuracy of the Plant Rollforward schedules.

Our engagement to apply agreed-upon procedures will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose. If, for any reason, we are unable to complete the procedures, we will describe any restriction on the performance of the procedures in our report, or will not issue a report as a result of this engagement.

If, however, as a result of the procedures or through other means, any material (as defined in Attachment A) matters come to our attention that cause us to believe that the Plant Rollforward schedules are not presented in accordance with the NARUC Uniform System of Accounts for Wastewater Utilities, we will disclose those matters in our report. Such disclosures, if any, may not necessarily include all matters which might have come to our attention had we performed additional procedures or an examination.

Because the agreed-upon procedures listed in Attachment A do not constitute an examination, we will not express an opinion on the Plant Rollforward schedules. In addition, we have no obligation to perform any procedures beyond those listed in Attachment A.

December 4, 2015

We will submit a report listing the procedures performed and our findings. This report is intended solely for the use of EPCOR Water Arizona Inc. and the Arizona Corporation Commission, and should not be used by anyone other than these specified parties. Our report will contain a paragraph indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

You are responsible for the presentation of EPCOR Water Arizona Inc.'s Plant Rollforward schedules in accordance with the NARUC Uniform System of Accounts for Wastewater Utilities; and for selecting the criteria and determining that such criteria are appropriate for your purposes.

You are responsible for assuming all management responsibilities and for overseeing any bookkeeping, tax or other nonattest services we provide by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. In addition, you are responsible for evaluating the adequacy and results of those services performed and accepting responsibility for the results of such services.

Peggy H. Ullmann, CPA is the engagement partner and is responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

We plan to begin our procedures as soon as we receive the information we request from you and, unless unforeseeable problems are encountered, the engagement should be completed by February 15, 2016. At the conclusion of our engagement, we will require a representation letter from management that, among other things, will confirm management's responsibility for the presentation of the Plant Rollforward schedules in accordance with the NARUC Uniform System of Accounts for Wastewater Utilities.

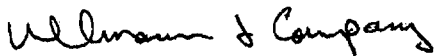
Our fees for these services will be computed at our standard rates and will be billed as the work progresses. We will cap our fees for services at a \$30,000 maximum, after which we will mutually agree to continue services and billing. Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. Amounts unpaid after 30 days are subject to a monthly service fee of 1.5%. In accordance with our firm policies, work may be suspended if your account becomes overdue and will not be resumed until your account is paid in full. If we elect to terminate our services for nonpayment, our engagement will be deemed to have been completed upon written notification of termination even if we have not completed our report. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

EPCOR Water Arizona Inc.
Page 3
December 4, 2015

If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us. If the need for additional procedures arises, our engagement with you will need to be revised. It is customary for us to enumerate these revisions in an addendum to this letter. If additional specified parties of the report are added, we will require that they acknowledge in writing their responsibility for the sufficiency of procedures.

Yours truly,



Ullmann & Company, P.C.
Certified Public Accountants

Response:

This letter correctly sets forth the understanding of EPCOR Water Arizona Inc. and the Arizona Corporation Commission.

Accepted:



Greg Barber, EPCOR Water Arizona Inc.

Date:

12/4/15

Attachment A

We will perform the following procedures on the EPCOR Water Arizona Inc.'s Plant Rollforward schedules from December 31, 2008 to December 31, 2015 for the Agua Fria Wastewater, Anthem Wastewater, Sun City Wastewater, Sun City West Wastewater, Mohave Wastewater¹, and Northwest Valley WRF Districts (the Districts). Only exceptions above the materiality limit of 25 basis points of each District's rate base approved in the Arizona Corporation Commission (ACC) Decision Nos. 72047 and 75268 will be reported.

1. We will compare the applicable test year end balances of plant, by NARUC code, and accumulated depreciation, in total, to the deconsolidated staff report schedules A-F provided by EPCOR Water Arizona Inc. and confirmed by the ACC to agree to the decisions applicable to the applicable test year end balances.
2. For all plant additions with values exceeding the materiality limit when placed in service, we will compare the capitalized item to the supporting invoices or other documentation.
 - a. For any capitalizations that include overhead costs, we will trace one overhead cost per capitalization back to the burden percentage approved by EPCOR management and recalculate this single cost based on the approved rate.
 - b. If AFUDC or capitalized interest on a project exceeds the materiality limit, we will recalculate the AFUDC and/or interest based on the interest rates provided by the Arizona Corporation Commission and/or the Corporate Accounting office of EPCOR Water Arizona Inc., respectively.
3. For any transfers between NARUC codes or Districts greater than the materiality limit, we will compare to supporting information and/or EPCOR management's approval of the adjustment.
4. We will compare any retirements of plant greater than the materiality limit to documentation supporting the retirement and/or EPCOR management's approval of the retirement. The original cost of the plant retired should be noted in this supporting documentation.
5. We will recalculate the amount of accumulated depreciation removed for any retirement of plant above the materiality limit and compare to the Plant Rollforward schedules.
6. We will recalculate depreciation expense for each month and each NARUC code using the depreciation rates noted in the applicable rate case for each District.
7. We will recalculate all formulas in the Plant Rollforward schedules for accuracy.
8. We will read the internal auditors' 2014 Q4 CSOX report covering the capital asset, procurement, IT, and payroll internal control processes for EPCOR Utilities Inc. and list any deficiencies, issues, or findings noted in their report noted from their walkthroughs and tests of internal controls over these processes that relate to EPCOR Water Arizona Inc.'s internal control processes.

¹ The procedures that will be performed for Mohave Wastewater will apply to the period June 30, 2013 to December 31, 2015.